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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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The Upbeat Consumer . . .

This month, Washington released a flurry of upbeat business statistics which confirmed that not only is there plenty of life left in the recovery, but also that continued strong expansion appears a good bet in the first quarter. Personal incomes jumped a solid 1.1 percent, month-over-month in January, while retail sales shot up 2.2 percent. This was fueled by robust automobile sales, which rose to their highest level since 1979, and department store sales, which posted their sharpest increase in nine years. What is more, housing starts surged 15 percent in January and the 14.4 percent rise in building permits—a harbinger of future construction activity—suggests that the housing boom is far from over.

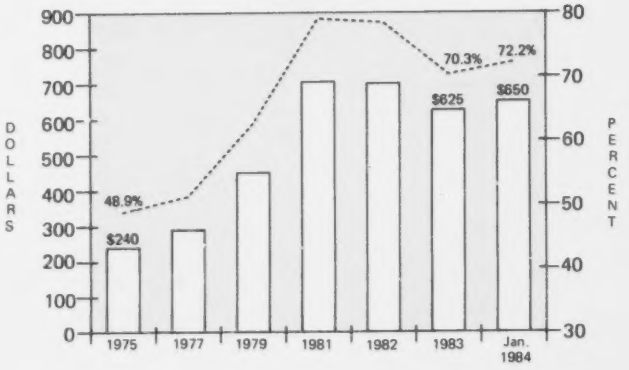
Meanwhile, industrial production increased by a healthy 1.1 percent in January, as manufacturers attempted—although unsuccessfully—to rebuild inventories depleted by strong demand. But while all this was great news for consumers and business alike, it tended to unsettle the financial markets, since it again raised the possibility that the Federal Reserve will tighten the monetary reins in order to prevent the economy, and ultimately the rate of inflation, from overheating.

The consumer is still the driving force behind the economy's forward momentum. January's rise in personal income was based on a good-sized leap in wages and salaries—unlike the gains in the previous two months, when incomes were bolstered by stepped-up Federal government payments to farm proprietors under the Payment-In-Kind program as well as by increased Social Security payments. It occurred thanks to higher employment, a rising number of hours worked and increases in hourly earnings. Importantly, consumer spending, which makes up two thirds of the overall GNP, resumed its brisk pace in January, following December's lull. Not coincidentally, the Conference Board reports that its confidence index is now higher than it has been in over five years, while the University of Michigan survey shows the best results since 1965.

. . . Keeps The Recovery . . .

This perception of improving business conditions has caused shoppers to open their wallets more readily and use credit more freely despite a still low savings rate. It probably resulted in another sizable jump in outstanding consumer installment credit in January, on top of December's record $6.6 billion rise. This spending spree caught many businessmen by surprise. In an attempt to keep their inventories in check, they had been filling up their warehouses slowly. But when sales jumped six times as fast as stocks in December, the overall business inventory-to-sales ratio was pushed sharply lower. In December, it fell to a record low of 1.31 months' sales, when adjusted for seasonal variation but not price changes.

MONTHLY MORTGAGE PAYMENT AT FIXED RATES (BAR) VS. % OF HOUSEHOLDS THAT CANNOT AFFORD TO BUY A NEW HOME (DOT)



To be sure, because of today's lofty interest rate levels and the more efficient computerized methods of inventory control, the levels of stocks that companies keep on hand are unlikely to return to historical norms. However, since companies obviously would prefer not to run the risk of experiencing shortages and thus losing business, accelerated inventory rebuilding may soon get underway. The inventory drawdown occurred mostly at the factory level last month, as manufacturers maintained thin stocks of work in progress, materials and supplies. This bodes well for continued healthy gains in industrial production, not to mention employment.

The two basic industries posting the greatest improvement during the current recovery, and

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especially recently, have been automobiles and housing. Automobile sales perked up at the beginning of this year, jumping from a seasonally adjusted 7.2 million unit annual rate in the fourth quarter of last year to nearly a 9.2 million unit pace in mid-February—leaving several subcompact models in short supply and the inventory of luxury cars well below desired levels. This occurred while manufacturers built 44 percent more cars than in the previous year—the largest number of assemblies for this month in five years.

In turn, the stepped-up auto production boosted demand for products in downstream industries. In December, for example, shipments of steel products to the auto industry rose 66 percent, year-over-year. What is more, the number of dealerships handling domestic makes of passenger cars increased last year—the first annual rise in nearly three decades.

. . . Solidly On Track

So too, sales of new and existing homes continue to soar. In December, sales of new single-family homes ran 28 percent higher than November's rate and more than 50 percent above a year ago, leaving builders with only 4.5 months' supply at December's selling rate. This was the lowest supply rate in more than 12 years. The increase in the number of existing homes sold in December was not as dramatic, although it was 25 percent above a year ago.

While much of this strength in the housing numbers

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 2/22/84	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	157.209	+ .919	+11.758
Loans to Depository Inst.	.634	– .119	+ .159
Float	1.004	– .067	– .528
Total Reserve Bank Credit	166.807	– .226	+10.423
Treasury Deposits with Federal Reserve Banks	4.864	+ .466	+ 1.643
Currency Outside Banks**	145.789	– .328	+12.403
Member Bank Reserves:			
Required**	38.858	– .814	– 1.626
Excess (Deficiency)**	.432	– .148	+ .011
Total Reserves Held**	39.290	– .962	– 1.615
Net Borrowed Reserves**	.133	+ .310	+ .419
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	116.650	– .030	+ 3.399
Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (2/13/84)	532.9	‡	‡
M2 (January '84)	2,205.9	+ 7.1	+ 9.3
M3 (January '84)	2,273.4	+ 10.0	+ 9.4
Domestic Nonfinancial Debt (4th Q'83)	5,219.0	+ 10.6	+ 10.8

†Seasonally adjusted.
**Data as of 2/1/84.
*Seasonally adjusted annual rate.
‡Data unavailable due to revisions.

New York Money Market

Offering Rates 2/24/84	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	9.25%	9.35%	9.40%
* Federal Agencies	9.35	9.65	10.25
* Project Notes—Taxfree (46% Taxable Equivalent)	9.17	9.44	10.09
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.76	9.95	10.45

‡Finance Company Paper—Prime

5- 14 days	9.35%
15- 29 days	9.40
30- 59 days	9.45
60- 89 days	9.40
90-179 days	9.20
180-239 days	9.00
240-270 days	9.00

‡* Bankers' Acceptances

Mar.	9.50%
Apr.	9.50
May	9.50
Jun.	9.50
Jul.	9.50
Aug.	9.50

‡Industrial Paper—Prime

30- 89 days	9.40%
90-120 days	9.40

†Federal Funds Effective Rate 9.60%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'83	$ 3,437	$ 3,362	$ 3,110
Gross National Product (1972 Dollars)*	4th Q'83	$ 1,572	$ 1,553	$ 1,481
Percent Change, Annual Rate	4th Q'83	4.9	7.6	– 1.3
Change in Consumer Prices (new series)*	Jan '84n	6.0%	3.6%	2.4%
Change in Producer Prices*	Jan '84	7.2%	1.2%r	– 8.4%r
Civilian Employment (Thousands of Persons)†	Jan '84	103,190	102,941	99,154
Unemployment as % of Civilian Labor Force†	Jan '84	8.0%	8.2%	10.4%
Personal Income*	Jan '84	$ 2,889	$ 2,858	$ 2,653
Leading Indicators Composite Index (1967=100)†	Dec '83	162.9	161.9	140.9
Industrial Production Index (1967=100) †	Jan '84	158.1	156.4	137.4
Net Change in Consumer Installment Credit †	Dec '83	$ 6.61	$ 4.67	$ 2.42
U.S. Merchandise Trade Balance †	Dec '83	–$ 6.30	–$ 7.40	–$ 3.66
Plant and Equipment Expenditures*	1st Q'84	$323.07(a)	$321.60(a)	$293.03
Private Housing Starts (Thousands of Units)*	Jan '84	1,915	1,666	1,632
New Construction Expenditures*	Dec '83	$ 275.0	$ 275.5	$ 240.2
Total Business Inventories †	Dec '83	$ 520.0	$ 518.1	$ 511.9
Total Business Sales †	Dec '83	$ 395.9	$ 386.6	$ 338.4

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

is a result of lower mortgage interest rates, it also reflects the growing popularity of variable rate mortgages. These mortgages permit homeowners to borrow initially at rates several percentage points lower than on conventional mortgages, and have a lower—or sometimes no—origination fee. In January, for example, three out of every five homebuyers financed their homes with adjustable rate mortgages—the first time ever that the number of variable rate mortgage originations exceeded the number of conventional, fixed-rate originations.

The difference in monthly payments between these two types of mortgages can be substantial. Currently averaging 11.63 percent, the adjustable rate saves the buyer of a median-priced home of $75,900 who puts down 25 percent of the purchase price almost $100 per month compared with a 13 percent conventional 30-year mortgage. Applying the rule of thumb that households should not devote more than one quarter of their monthly gross income for servicing their mortgage, only about 28 percent of first-time homebuyers are able to afford to buy a new home when financing a fixed-rate mortgage (see chart on page 1). If, however, an adjustable rate is used, an additional eight percent of U.S. households qualify. That is equivalent to the proportion to households capable of purchasing a new home in late 1978. At that time, housing starts topped two million units.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (2/8/84)	140,762	– 1,302	–28,959
New York City (2/8/84)	28,345	– 15	–13,886
Commercial Paper (2/15/84)	188,890	– 157	+20,766

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

	Latest Week	Change Since Week Ago	Change Since Year Ago
Weekly Reporting Large Commercial Banks			
Nationwide (2/8/84)	222,905	+ 1,483	NA*
New York City (2/8/84)	58,536	+ 734	– 2,001

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/8/84)	575,498	– 1,760	NA*
New York City (2/8/84)	129,736	– 1,669	NA*

*Year ago data not available due to definitional changes.

Financial Markets

	Friday 2/24/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.10%	– .42	+ 1.00
180-Day Bills†	9.26	– .67	+ .94
Longest Bills†	9.30	– .95	+ .73
Recent Issues:			
10 7/8s 2/28/86 (When Issued)	10.98	NA	
11 1/4s 12/31/87	11.53	+ .08	
11 3/4s 11/15/93	12.03	+ .13	
12s 8/15/13	12.15	+ .12	
Municipals:			
Bond Buyer–20 Bond Index* (2/23/84)	9.80%	+ .12	+ .46
Blue List Total ($ Million)	$1,416	+$ 76	+ $ 371
30-Day Visible Supply ($ Million)	$1,920	–$ 166	– $ 355
Total	$3,336	–$ 90	+ $ 16
Corporates:			
Moody's Aa Composite (2/23/84)	12.79%	+ .11	+ .35
30-Day Visible Supply ($ Million)	$3,140	+$1,890	+ $2,177
Stocks:			
Dow-Jones Averages:			
Industrials	1,165.10	+ 16.23	+ 44.16
Transportation	910.9	+ 8.58	+ 18.59
Utilities	125.05	+ .39	+ .23
65 Stocks	455.95	+ 6.04	+ 15.87
Standard and Poor's 500 Stocks	157.51	+ 1.77	+ 7.77
N.Y.S.E. Composite Index	90.49	+ .90	+ 4.15
N.Y.S.E. Avg. Daily Vol. for Week (000's)	91,358	+ 6,510	– 4,470

* 46% Taxable equivalent 18.15%.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 2/24/84	Week Ago
Overnight	9.56%	9.50%
1 month	9.81	9.75
3 month	10.13	10.00
6 month	10.38	10.13
1 year	10.75	10.56
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.72%	11.60%
Long Term (7 to 15 yrs.)	11.91	11.80

FOREIGN EXCHANGE SPOT RATES

New York Opening (2/24/84)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01858	53.83
Canada	.8006	1.2491
Denmark	.1038	9.6375
France	.1234	8.1050
Germany	.3803	2.6295
Italy	.0006128	1631.90
Japan	.004296	232.80
Mexico	.005935	168.50
Netherlands	.3365	2.9715
Switzerland	.4599	2.1745
U.K.	1.4675	.6814

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